

**Before the
United States Patent and Trademark Office
Alexandria, VA 22313**

In the Matter of)
)
Implementation of the)
Leahy-Smith America Invents Act)
Public Law 112-29)

**COMMENTS OF VERIZON COMMUNICATIONS INC. AND GOOGLE INC.
ON THE STUDY OF PRIOR USER RIGHTS
UNDER THE LEAHY-SMITH AMERICA INVENTS ACT**

Michelle K. Lee
Suzanne Michel
GOOGLE INC.
1600 Amphitheatre Parkway
Mountain View, California 94043
(650) 253-0000

John Thorne
Gail F. Levine
VERIZON COMMUNICATIONS INC.
1320 North Court House Road, 9th Floor
Arlington, Virginia 22201
(703) 351-3900

Helgi C. Walker
Claire J. Evans
WILEY REIN LLP
1776 K Street, NW
Washington, DC 20006
(202) 719-7000

November 8, 2011

TABLE OF CONTENTS

I. INTRODUCTION1

II. PRIOR-USER RIGHTS HAVE HISTORICALLY BEEN AN ESSENTIAL
ELEMENT OF PATENT LAW AND ARE ESPECIALLY IMPORTANT
IN A FIRST-TO-FILE SYSTEM.3

 A. Patent Law Has Long Provided for Prior User Rights in Order To
 Promote and Protect Innovation.....3

 B. The Prior Use Defense Is More Important Than Ever Under the
 New “First-to-File” Regime.....7

III. CONCLUSION.....11

I. INTRODUCTION

In accordance with Section 3(m) of the Leahy-Smith America Invents Act (“AIA”), the PTO has requested written comments on, among other things, “whether the change to a first-to-file patent system creates a particular need for prior user rights.”¹ The answer to that question is a resounding yes. “As a matter of fairness, . . . innovators who independently create and commercialize technology should not be penalized for, or deprived of, their investment” because someone else later patents their innovation.² Although the prior art provisions of the Patent Act should provide protection against such a result, the prior use defense provides additional and absolutely essential protection for the innovators whose productive use of an invention drives America’s economy. Robust prior user rights are particularly important in light of the AIA’s transition to a first-to-file patent system, which, absent such rights, may place these innovators at an increased and inappropriate risk for patent infringement liability.

As a historical matter, the courts and the PTO have long recognized that innovation is best served by giving companies the freedom “to choose . . . the most commercially sound approach to commercially exploiting” their innovations, including an approach that opts out of patent protection and in favor of pure productive use of the invention.³ There is no duty to shield every innovation with patent protection⁴ and, in some circumstances, the most “reasonable and

¹ Pub. L. 112-29, 125 Stat. 284, § 3(m)(1)(F) (2011); *see also* 76 Fed. Reg. 62388, 62389 (2011).

² H.R. Rep. 112-98 at 87 (2011) (Letter from Secretary of Commerce Gary Locke to House Judiciary Committee Chairman Lamar Smith (May 31, 2011)).

³ Prepared Statement of the U.S. Patent and Trademark Office, Bruce A. Lehman, Comm’r of Patent and Trademarks (“PTO Statement”), *Prior User Rights (Relative to Patents): Hearing Before the Subcomm. on Intellectual Prop. and Judicial Admin. of the House Comm. on the Judiciary*, 103d Cong. 88, at 12 (1994) (“*Prior User Rights Hearing*”).

⁴ *Dunlop Holdings Ltd. v. Ram Golf Corp.*, 524 F.2d 33, 37 (7th Cir. 1975); *see also Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 493 (1974).

commercially sound decision” is a decision to forego patent protection.⁵ This is especially so where business operations involve a multitude of possibly patentable concepts that constantly and incrementally evolve as innovation advances. In such a case, patent protection for every innovation is neither feasible nor necessarily the most efficient or pro-competitive approach.⁶ Accordingly, it has long been accepted that “it would be unjust” to deny a company that chooses the reasonable, commercially sound, and pro-innovation decision to operate without patenting every incremental innovation the “right to continue diligent efforts to market the product of [its] own invention” should another entity later patent the same innovation.⁷

The prior use defense was originally designed to afford just such protection, and its pro-innovation purposes remain as valid today as when the defense was first created. Now more than ever, however, America’s competitive advantage depends upon the assurance of a strong prior use defense. The AIA initiated a transition to a system where the first to file a patent application will receive at least some sort of priority treatment over a prior inventor, thereby creating an increased risk of patent infringement liability for those who have been making productive use of an invention without a patent. Congress created this system, in part, through the elimination of “the prior invention bar to patentability under section 102(g)(2).”⁸ But Congress recognized that the repeal of Section 102(g) may have unwarranted negative ramifications for “a non-patent-filing manufacturer,”⁹ and so Congress simultaneously *expanded* the existing prior use defense.¹⁰

⁵ PTO Statement, *Prior User Rights Hearing* at 10.

⁶ *Id.*

⁷ *See Dunlop Holdings*, 524 F.2d at 37.

⁸ 157 Cong. Rec. S5402, S5426 (Sept. 8, 2011) (Statement of Sen. Blunt); *see also* 35 U.S.C. § 102(g)(2) (2010) (“A person shall be entitled to a patent unless . . . before such person’s invention thereof, the invention was made in this country by another inventor who had not abandoned, suppressed, or concealed it.”).

⁹ 157 Cong. Rec. S5402, S5426 (Sept. 8, 2011) (Statement of Sen. Blunt).

Interpretation and application of the prior use defense must, therefore, fill any void left by the changes rendered to the prior-art provisions by virtue of the switch to a first-to-file system so that “developers of innovative technologies [can] keep internally used technologies in-house without publication in a patent” and without fear of liability.¹¹

The freedom to operate without fear of liability for each innovation left unpatented is absolutely critical to maintaining the competitiveness of the modern-day American technology sector. In many high-tech fields, particularly those involving electronics, communications, and information technology, the most pro-competitive, efficient solution is often one that does not involve patent protection. Innovation in these fields is so rapid and constant that it will often be better served by the investment of funds in further development efforts and productive use of existing inventions instead of in the patent application process. The country’s economic future, in turn, will be better for the existence of that innovation and the efficient allocation of resources.

II. PRIOR-USER RIGHTS HAVE HISTORICALLY BEEN AN ESSENTIAL ELEMENT OF PATENT LAW AND ARE ESPECIALLY IMPORTANT IN A FIRST-TO-FILE SYSTEM.

A. Patent Law Has Long Provided for Prior User Rights in Order To Promote and Protect Innovation.

As a historical matter, the prior use defense is rooted in the inherent inequity of subjecting an entity to liability for patent infringement when it innovated and used an invention

¹⁰ H.R. Rep. 112-98 at 44; *compare* AIA § 5(a) (amending 35 U.S.C. § 273(a)) (“A person shall be entitled to a defense under section 282(b) with respect to subject matter consisting of a machine, manufacture, or composition of matter used in a manufacturing or other commercial process”) *with* 35 U.S.C. § 273(b)(1) (“It shall be a defense to an action for infringement under section 271 of this title with respect to any subject matter that would otherwise infringe one or more claims for a method in the patent being asserted against a person, if such person had, acting in good faith, actually reduced the subject matter to practice at least 1 year before the effective filing date of such patent, and commercially used the subject matter before the effective filing date of such patent.”).

¹¹ 157 Cong. Rec. S5402, S5426 (Sept. 8, 2011) (Statement of Sen. Blunt).

before another entity patented it. Prior user rights were first codified in the Patent Act of 1839¹² in order “to protect the person who has used the thing patented” before the issuance of the patent “from any liability to the patentee or his assignee.”¹³ As the Supreme Court explained, the “honest pursuit of business” must not be thwarted “with fears and apprehensions of . . . unknown liabilities . . . for profits made in good faith.”¹⁴ Congress retained some form of the defense until 1952,¹⁵ when it was repealed as “redundant” of the Act’s prior art provisions.¹⁶ Despite the repeal, there were as of the late 1990s “no reported cases where a first inventor/prior user has been enjoined from practicing his or her invention by a second inventor/patentee, suggesting a tacit recognition of prior user rights.”¹⁷

In 1998, with the Federal Circuit’s decision in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*,¹⁸ it became clear that a recodified defense was necessary to supplement the protection afforded by the prior art provisions.¹⁹ In *State Street*, the Federal Circuit held, contrary to long-standing practice, that business methods could be patented.²⁰ Almost immediately, patent protection was sought for “thousands of methods and processes used

¹² Patent Act of 1839, ch. 88, § 7, 5 Stat. 353, 354 (1839).

¹³ *McClurg v. Kingsland*, 42 U.S. 202, 208-09 (1843).

¹⁴ *Atlantic Works v. Brady*, 107 U.S. 192, 200 (1883).

¹⁵ See Patent Act of 1870, ch. 230, § 37, 16 Stat. 198; Revised Patent Act, ch. 1, § 4899, 18 Stat. 945, 948 (1873); 35 U.S.C. § 48 (1926).

¹⁶ H.R. Rep. 1923, 82d Cong., 2d Sess., Table 3, at 72 (1952).

¹⁷ See Kyla Harriel, *Prior User Rights in a First-to-Invent Patent System: Why Not?*, 36 IDEA 543, 550 (1996).

¹⁸ 149 F.3d 1368, 1375 (Fed. Cir. 1998).

¹⁹ H.R. Rep. 106-464 at 122 (1999) (“The 1998 opinion by the U.S. Court of Appeals for the Federal Circuit in *State Street Bank and Trust Co. v. Signature Financial Group*, which held that methods of doing business are patentable, has added to the urgency of the issue.”)

²⁰ 149 F.3d 1368, 1375 (Fed. Cir. 1998).

internally.”²¹ As Congress recognized, however, there are so many “business methods” that “[i]t would be administratively and economically impossible to expect any inventor to apply for a patent on all methods and processes now deemed patentable.”²² Congress also recognized that not every internal method or process *should* be patented. Many businesses had appropriately protected their business methods as trade secrets,²³ and trade secret laws “have an important part to play in the technological and scientific advancement of the Nation.”²⁴

Immediately after the *State Street* decision, “Congress moved quickly to limit the potential fallout” by redressing “one potential effect of that decision: that businesses might suddenly find themselves liable for innocently using methods they assumed could not be patented.”²⁵ It did so by reenacting a prior use defense (known at the time as a “first inventor defense”) that applied in actions alleging infringement of a business method patent.²⁶ Congress intended that the defense would protect “small and large businesses, including financial services, software companies, and manufacturing firms—any business that relies on innovative business processes and methods.”²⁷ The defense applied regardless of whether “the subject matter at issue [was] accessible to or otherwise known to the public,” and thereby complemented the prior art provisions of Section 102.²⁸ In other words, even if a prior use was not “prior art” that

²¹ H.R. Rep. 106-464 at 122 (1999).

²² *Id.*

²³ *Id.*

²⁴ *Kewanee Oil*, 416 U.S. at 493.

²⁵ *Bilski v. Kappos*, 130 S. Ct. 3218, 3250 (2010) (Stevens, J., concurring in the judgment).

²⁶ 35 U.S.C. 273(b)(1).

²⁷ H.R. Rep. 106-464 at 122-23.

²⁸ See 35 U.S.C. § 273(b)(9) (“A patent shall not be deemed to be invalid under section 102 or 103 of this title solely because a defense is raised or established under this section.”); see also 145 Cong. Rec. H6929, H6944 (Aug. 3, 1999) (Statement of Rep. Rohrabacher) (“[T]he best defense to a charge of infringement will remain the successful assertion of invalidity.”).

invalidated the patent entirely, the prior use defense would at least protect those businesses that “used the patented method or process prior to the method being patented” from liability for infringement.²⁹ As a result, the prior use defense enabled the prior user to continue to practice the invention even though another entity held the patent to it.

The principle underlying the prior user defense – that no inventor is *required* to seek a patent and, indeed, the inventor’s time and energy could be put to more productive use – has also been repeatedly affirmed. As the PTO aptly put it, “[o]ur patent laws were not designed to force American companies to seek patent protection for every invention they develop. Rather they are one facet of a larger system designed to encourage not only technological innovation but also realization of the benefits of innovation—new products and services delivered into the marketplace.”³⁰ And, “[i]n many cases, the most commercially sound strategy for a manufacturer is to forego patent protection.”³¹ Where that is the choice made, the company may “forfeit [its] entitlement to monopoly protection,” but it does not give up the “right to continue diligent efforts to market the product of [its] own invention.”³²

Indeed, the patent laws were never intended to “create[] a class of speculative schemers who make it their business to watch the advancing wave of improvement, and gather its foam in the form of patented monopolies, which enable them to lay a heavy tax upon the industry of the country, without contributing anything to the real advancement of the art.”³³ Rather, they are “[t]o promote the Progress of Science and the useful Arts” by creating incentives to innovate.³⁴

²⁹ *Sabasta v. Buckaroos, Inc.*, 507 F. Supp. 2d 986, 1003-04 (S.D. Iowa 2007).

³⁰ PTO Statement, *Prior User Rights Hearing* at 10.

³¹ *Id.*

³² *Dunlop Holdings*, 524 F.2d at 37.

³³ *Atlantic Works*, 107 U.S. at 200.

³⁴ *Kewanee Oil Co.*, 416 U.S. at 480 (quoting U.S. Const., Art. I, § 8, cl. 8).

B. The Prior Use Defense Is More Important Than Ever Under the New “First-to-File” Regime.

With Congress’s change to a “first-to-file” patent system, a robust prior use defense is more important than ever to innovation and the productive use of inventions in America. As explained above, the prior use defense has long been an essential means of promoting those ends, and the original pro-competitive rationale for the defense is just as valid today as it was in the early 19th century. But now, as former Commissioner Lehman explained, “the case for prior user rights is considerably stronger in a first-to-file system than it is even in [a first-to-invent system], and that is because, in a first-to-file system, of course, you may have situations in which the first inventor has not won the race to the Patent Office.”³⁵ A prior use defense is thus vitally important in order to ensure that if the true inventor has “not won that race, at least [it] will not be put out of business. [It] will be able to continue to use the technology that [it] invented.”³⁶

In the AIA, Congress sought to transform the patent system into a first-to-file regime through, in part, the elimination of Section 102(g) of the Patent Act. That provision allowed anybody to challenge a patent as invalid on the ground that “before [the patentee’s] invention thereof, the invention was made in this country by another inventor who had not abandoned, suppressed, or concealed it.”³⁷ Section 102(g) was relied upon, with a relatively high degree of success on the merits, by the patent community.³⁸ At the same time that it repealed Section 102(g), Congress dramatically expanded the prior use defense to reach “any patent (not just

³⁵ Testimony of Bruce A. Lehman, Comm’r of Patent and Trademarks, *Prior User Rights Hearing* at 22.

³⁶ *Id.*

³⁷ 35 U.S.C. § 102(g) (2010).

³⁸ Empirical studies of patent infringement suits show that the Section 102(g) defense to validity has been important to the patent community. See Lex Machina, *U.S. Prior User Rights/Inventorship Study*, Executive Summary at 3 (Nov. 7, 2011) (“The fact that the § 102(g)(2) prior inventorship defense was relied on so heavily (against expectation), and was successful so often, reflects the importance of prior user rights.”).

method patents).”³⁹ The two actions were deliberately taken in tandem, and they reveal Congress’ clear recognition of the increased importance of prior user rights given its changes to the rest of the Act.

In particular, Congress expanded the prior use defense when it enacted the AIA in order to address the “legitimate concerns of businesses that want to avoid infringement suits relating to processes that they developed and used prior to another party acquiring related patents.”⁴⁰ Indeed, the expansion of prior user rights was “perhaps the most important” addition to the AIA in light of the first-to-file transition.⁴¹ It “provides relief to U.S. manufacturers . . . , allowing them to make long-term use of a manufacturing process without having to . . . run the risk that it will be patented out from under them.”⁴² As a result, it “will help U.S. industry to keep jobs at home and provide a basis for restoring and maintaining a technology competitive edge for the

³⁹ H.R. Rep. 112-98 at 44 (emphasis added); *see also* AIA § 5(a) (amending 35 U.S.C. § 273(a)) (“A person shall be entitled to a defense under section 282(b) with respect to subject matter consisting of a machine, manufacture, or composition of matter used in a manufacturing or other commercial process . . .”).

⁴⁰ H.R. Rep. 112-98 at 44; *see also* 157 Cong. Rec. S5402, S5440 (Sept. 8, 2011) (Statement of Sen. Leahy) (“[T]he Leahy-Smith America Invents Act, which the Senate is considering today, makes important improvements to expand prior user rights beyond just methods of doing business. These improvements will be good for domestic manufacturing and job creation. . . . [T]he inclusion of expanded prior user rights is essential to ensure that those who have invested in and used a technology are provided a defense against someone who later patents the technology.”).

⁴¹ 157 Cong. Rec. S5402, S5429-30 (Sept. 8, 2011) (Statement of Sen. Kyl); *see also* 157 Cong. Rec. E1219, E1219 (June 28, 2011) (Extended Remarks of Rep. Smith) (“One key part of the transition . . . is the necessary inclusion of prior user rights under the new first-inventor-to-file system. The inclusion of prior user rights is essential to ensure that those who have invented and used a technology but choose not to disclose that technology . . . are provided a defense against someone who later patents the technology.”).

⁴² 157 Cong. Rec. S5402, S5430 (Sept. 8, 2011) (Statement of Sen. Kyl); *see also* 157 Cong. Rec. S5319, S5319 (Statement of Sen. Kyl) (“This [prior use] defense will ensure that the first inventor of a new process, or of a product used in a manufacturing process, can continue to use the invention in a commercial process even if a subsequent inventor later patents the idea.”).

U.S. economy.”⁴³ A robust prior use defense is, therefore, “absolutely a key component of the transition to a first-to-file system.”⁴⁴

Of course, prior user rights are essential to innovation under any type of patent system. As the historical origins of the prior use defense teach, there are sound and legitimate reasons for supporting an innovator’s decision not to seek patent protection for every possibly patentable innovation.⁴⁵ But particularly in the modern-day high-tech sector, “it is simply not feasible for a company to patent every invention it may develop.”⁴⁶ Each component, product, or process could attract thousands of patent claims.⁴⁷ And, in many cases, it may not be clear that incremental steps in innovation are patentable or that the innovation will continue in its current form throughout the entirety of the patent application process. “The path of innovation” with

⁴³ 157 Cong. Rec. S5402, S5426 (Sept. 8, 2011) (Statement of Sen. Blunt); *see also id.* (Statement of Sen. Leahy) (“Prior user rights, if properly crafted and asserted, can be of great benefit to keeping high-paying jobs here at home.”); 157 Cong. Rec. S5319, S5319 (Sept. 6, 2011) (Statement of Sen. Kyl) (A prior use defense “creates a powerful incentive for manufacturers to build factories and create jobs in this country.”)

⁴⁴ 157 Cong. Rec. H4480, H4483 (June 23, 2011) (Statement of Rep. Smith); *see also id.* (“Prior-user rights are important as part of our change to a first-to-file system.”); *id.* at H4492 (Statement of Rep. Lofgren) (“[Y]ou cannot have first-to-file without robust prior-user rights.”); 157 Cong. Rec. H4420, H4424 (June 22, 2011) (Statement of Rep. Lofgren) (“[I]f we are moving to a first-to-file system, there has to be robust protection for prior user rights.”).

⁴⁵ *See supra* at 3-7.

⁴⁶ PTO Statement, *Prior User Rights Hearing* at 10; *see also* Testimony of Bruce A. Lehman, Comm’r of Patent and Trademarks, *Prior User Rights Hearing* at 7 (“We went out to California, and over and over again we heard this refrain, that people in the software industry do not want to have to call up legal before they can enter key strokes onto their computer. . . . And, really, that is what the prior user defense is all about. It enables people to engage in their business and if they make a decision not to patent, and then later on some independent inventor comes along, . . . at least they have a right to continue to use that technology.”).

⁴⁷ *See generally* S. Rep. No. 110-259, at 12 (2008) (“Long past is the day in which the typical invention is a *sui generis* creation; today’s patents are often combinations, and many products comprise dozens, if not hundreds or even thousands of patents, and the infringed patent may well be one smaller part of a much larger whole.”); *see also* 157 Cong. Rec. H4480, H4483 (June 23, 2011) (Statement of Rep. Smith) (“The prior-use defense . . . will protect American manufacturers from having to patent the hundreds or thousands of processes they already use in their plants.”).

respect to technology is rapid and “often incremental, with new ideas added, and products developed and commercialized, using earlier work as the foundation and building blocks.”⁴⁸ There is, therefore, no assurance that the investment required to file a patent application will ever pay off.⁴⁹ Even where obtained, a patent may ultimately “not prove to be a cost-effective mechanism for protecting an invention, particularly where . . . it can be difficult to discover and prove infringement.”⁵⁰

Thus, in many cases, the most “reasonable and commercially sound decision” is a decision “to not seek patent protection on a particular invention”⁵¹ and instead to deploy time and resources into continued innovation and productive use of the invention. It is of the utmost importance that the patent laws, which have historically respected this decision, continue to do so today. “The larger societal goal of realizing the benefits of innovation is best served by policies that provide American companies with the maximum flexibility” in deciding how best to manage their innovations.⁵² And where American companies decide that innovation is best achieved through measures other than patent protection, the patent laws should not “expose the company to a significant risk [of liability] if the invention is later developed and patented by another.”⁵³

Former Secretary Locke was therefore correct when, in providing the PTO’s views on the AIA, including the first-to-file system, he wrote that the existence of a prior use defense remains

⁴⁸ Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, ch. 4 at 45 (2003), available at www.ftc.gov/os/2003/10/innovation_rptsummary.pdf (last visited Nov. 8, 2011) (“*FTC Innovation Report*”).

⁴⁹ PTO Statement, *Prior User Rights Hearing* at 10.

⁵⁰ *Id.*

⁵¹ *Id.*

⁵² *Id.* at 11.

⁵³ *Id.* at 10; see also Testimony of Bruce A. Lehman, Comm’r of Patent and Trademarks, *Prior User Rights Hearing* at 6 (If “innovation . . . is stimulated even without patenting, we are still successful.”).

“a matter of fairness.”⁵⁴ “[I]nnovators who independently create and commercialize technology should not be penalized for, or deprived of, their investment” because someone else later patents some aspect of their process or product.⁵⁵ This too is especially true in the modern-day high-tech marketplace, where one new patent relevant to one small aspect of a technology has the potential to halt production of an entire product line or disrupt provision of a service vital to consumers.⁵⁶ In today’s economy, it is absolutely essential that companies are able to “continue to use the invention in a commercial process even if a subsequent inventor later patents the idea.”⁵⁷ Any other result could bring innovation and customer service to a standstill.

In sum, with the AIA’s transition to a first-to-file system, it is more important than ever that the AIA’s prior use defense be given a broad scope. Together with the Act’s new prior art provisions, the prior use defense must be interpreted to protect American innovators so that they can continue to operate and innovate without fear of litigation over innovations that they are putting to productive use to the benefit of the national economy.

III. CONCLUSION

For all these reasons, we respectfully urge the PTO to report to Congress that there is a pronounced need for robust prior user rights in order to avoid any increased risk of liability under the new first-to-file patent system and to encourage “industries to continue to develop new technologies that spur growth and create jobs across the country.”⁵⁸

⁵⁴ H.R. Rep. 112-98 at 87 (Letter from Secretary of Commerce Gary Locke to House Judiciary Committee Chairman Lamar Smith (May 31, 2011)).

⁵⁵ *Id.*

⁵⁶ *FTC Innovation Report* at 7.

⁵⁷ 157 Cong. Rec. S5319, S5319 (Sept. 6, 2011) (Statement of Sen. Kyl).

⁵⁸ AIA § 30.